New U.S. Tariffs: Opportunities & Costs for India

Mains: *GS-III – Economy – External Trade*

Why in news?

The United States Trade Representative (USTR) has proposed a new tariff regime on Indian goods months after the US Supreme Court struck down Trump-era tariffs.

What about the United States Trade Representative (USTR)'s proposal?

- **Proposed tariff order** – The USTR has proposed a ***25% tariff on India***, suggesting that it could drop to 17% when New Delhi signs a trade deal.
- This new tariff structure is based on a Section 301 investigation into 'forced labour' and 'excess capacity'.
- **Slight advantage for India** – The proposed rates are slightly better than the trade deal rates of 18% offered to Bangladesh and several ASEAN countries such as Indonesia, Malaysia, Cambodia and Thailand and particularly compared to 20% offered to Vietnam post-trade deal.
- **Major U.S. partners receive lower tariffs** – The rates offered to other close US partners such as the European Union, Japan, Taiwan, Switzerland, and South Korea remain at 15%, with an even lower rate for Singapore at 10% under its reciprocal trade deal.
- This closely resembles the reciprocal tariff structure imposed by the US last year.
- **Negotiation-based reduction** – In the case of India, the reciprocal rates were set at 18% in February this year and have been reduced to 17% after several rounds of negotiations.
- A tariff edge over competitors was a key Indian ask in trade talks.
- **Need for tariff edge** – The tariff edge over ASEAN countries is important, as India is in direct competition with them across a range of products, including textiles, chemicals, electronics, solar products, automobiles and electrical equipment.
- Among ASEAN countries, Vietnam has been one of the fastest-growing economies. However, the US has levied the second-highest tariffs on Vietnam after China, which is facing tariffs of up to 40%.
- **India's importance** – However, unlike ASEAN countries, India has a vast domestic market, and a trade deal with the US is far more consequential.
- The India-US trade deal had been stuck for months amid steep US demands, particularly on agriculture.

Why is the US targeting India's dependence on China?

- **India's strong presence** – The USTR cited Indian industry estimates that India now supplies roughly ***one-third of its pharmaceutical exports to the United States,*** accounting for up to 47% of all generic prescriptions and 61% of generic solid oral drugs in the United States.
- **Dependence on APIs** – Despite some domestic growth, India remains heavily dependent on many active pharmaceutical ingredients (APIs) and bulk drug ingredients.
- Thus, India's acts, policies, and practices that relate to structural excess capacity and production are unreasonable because they distort fair, market-oriented competition.
- **US's concern over India** – India engages in acts, policies, and practices that promote structural excess capacity and production, including
    - Implementing industrial plans to maintain and
    - Expand Indian manufacturing, and
    - Setting overall targets for manufacturing and exports through initiatives such as Make in India and production-linked incentives (PLI).
- **Rise in India's imports from China** – India's imports of manufacturing inputs from non-market economies (NMEs, particularly China, have increased tremendously in recent years.
- According to the USTR, India's value of intermediate consumption imports from China is up $44 billion, or 97%, between 2017 and 2025.
- **Growing reliance on NMEs** – India's value of intermediate consumption ***imports from NMEs*** is up $91 billion, or 152%, between 2017 and 2025.
- This difference holds for both gross fixed capital formation goods and final consumption goods.
- Surging imports of NME inputs both distort competitive conditions within the Indian market and enhance the (artificial) competitiveness of Indian downstream products manufactured using those NME inputs, the USTR argues.

What has India agreed to under the US trade deal?

- **India to cut tariffs on U.S. goods** – Under the trade agreement, India agreed to "eliminate or reduce" tariffs on all US industrial goods and a wide range of US food and agricultural products, including dried distillers' grains (DDGs), red sorghum for animal feed, tree nuts, fresh and processed fruit, soybean oil, wine and spirits, and additional products.
- **Easy access to US medical and technology products** – India will work to remove long-standing barriers affecting U.S. medical devices and simplify import rules for U.S. information and communication technology (ICT) products, helping them enter the Indian market more easily.
- **Review of U.S. standards within six months** – India will assess whether U.S. and international product standards, testing requirements, and certifications can be accepted for selected imports, with a decision targeted within six months of the agreement taking effect.
- **Major India's purchase** – India intends to purchase $500 billion worth of US energy products, aircraft and aircraft parts, precious metals, technology products, and coking coal over the next 5 years.
- **Expanded trade cooperation** – India and the United States will significantly increase

trade in technology products, including Graphics Processing Units (GPUs) and other goods used in data centres, and expand joint technology cooperation.
- **Tariff advantage comes with trade-offs** – Although the deal could give India a tariff advantage over several ASEAN competitors, it requires India to make significant market-access concessions to U.S. exporters.

Is the US easing its demands on dairy and GM products?

- **India signals flexibility on key disputes** – India had indicated that the US may have eased its demands on genetically modified (GM) products and certain dairy imports, both major points of contention.
- **U.S. criticism of India's dairy import rules** – The US had cited Indian regulations blocking imports of certain dairy products as non-tariff barriers.
- The USTR, in its report on non-tariff barriers released in March 2025, had said that India imposes "onerous requirements" on dairy imports.
- **India rules out opening dairy and GM sectors** – India reaffirmed that it remains cautious about opening its dairy sector and continues to oppose the import of GM food products, citing concerns related to farmers, consumer preferences, and religious sensitivities.
- **Strict certification requirements for dairy imports** – The USTR report said that India requires dairy products intended for food to be derived from animals that have not consumed feeds containing internal organs, blood meal, or tissues of ruminant or porcine origin.
- Exporting countries must certify compliance with these conditions.
- **U.S. questions scientific basis of the rules** – The U.S. Trade Representative (USTR) argues that India's dairy import requirements are overly restrictive and lack a clear animal-health or human-health justification, making them an unnecessary barrier to trade.

What lies ahead?

- The proposed tariff deal could strengthen India's position against ASEAN exporters, but the benefit will depend on whether the tariff reduction outweighs the market-access concessions and purchase commitments India must make.

Reference

Indian Express | New US tariff push

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